

## Message Text

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: EFIN, UK

SUBJECT: INDUSTRY BILL; ROUND THREE BEGINS

REF: LONDON 2029

BEGIN SUMMARY: THE INDUSTRY BILL HAS NOW ENTERED THE COMMITTEE STAGE IN THE HOUSE OF COMMONS. IN COMMITTEE, IT WILL BE EXPOSED TO ATTEMPTS AT MODIFICATION BY THE CONSERVATIVE AND LIBERAL OPPOSITION, MOST OF WHOSE FIRE WILL PROBABLY BE CONCENTRATED ON THE DISCLOSURE PROVISIONS. THE GOVERNMENT HOPES THAT THE BILL WILL BE LAW BY JULY OR AUGUST OF THIS YEAR. AS THE BILL HAS BEEN PUBLICLY DISCUSSED, AND TO EXTENT WE HAVE BEEN ABLE TO DISCUSS IT WITH GOVERNMENT MINISTERS AND CIVIL SERVANTS, IT BECOMES CLEAR THAT IT IS THE DISCLOSURE PROVISIONS THAT ARE MOST TROUBLESOME TO ITS OPPONENTS (INDUSTRY, THE CONSERVATIVES AND SOME MODERATES OF THE LABOR PARTY) AND WHICH ARE SEEN AS MOST NECESSARY BY ITS PROponents (THE UNIONS AND THEIR  
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POLITICAL ALLIES IN THE GOVERNMENT AND LABOR PARTY).

APART FROM THIS PROVISION, THE BILL DOES NOT NOW APPEAR TO GIVE, IN PRACTICE, THE SECRETARY OF STATE FOR INDUSTRY THE WIDE POWERS TO BUY UP OR INTERFERE IN INDUSTRY INITIALLY FEARED. THERE IS GENERAL AGREEMENT THAT THE UK TREASURY WILL HAVE A LARGE VOICE IN DECISIONS ON INDUSTRIAL POLICY AND THAT THE CABINET WILL ALSO EXERCISE A CHECK ON THE INDUSTRY SECRETARY. END SUMMARY

1. THE INDUSTRY BILL ENTERED THE COMMITTEE STAGE OF CONSIDERATION THIS WEEK. WHILE IN COMMITTEE, THE CONSERVATIVES AND LIBERALS WILL ENDEAVOR TO MODIFY THE BILL EXTENSIVELY. THE CONFEDERATION OF BRITISH INDUSTRY (CBI) WHICH IS LEADING THE PUBLIC FIGHT AGAINST THE BILL HAS IDENTIFIED MANY AREAS IN WHICH THEY WANT CHANGE, ESSENTIALLY DIRECTLY TO THE SECRETARY OF STATE FOR INDUSTRY. THE CONSERVATIVE/LIBERAL OPPOSITION WILL ECHO THIS IN COMMONS. FOREMOST AMONG THE POWERS GIVEN THE INDUSTRY SECRETARY IS THE POWER TO REQUIRE DISCLOSURE OF INFORMATION BY FIRMS HE MAY DESIGNATE (WITH PARLIAMENTARY APPROVAL); THIS INFORMATION MAY BE GIVEN TO TRADE UNIONS. THE INDUSTRY SECRETARY IS ALSO EMPOWERED UNDER THE BILL TO DIRECT NATIONAL ENTERPRISE BOARD (NEB) INVESTMENTS; TO PREVENT FOREIGN TAKEOVERS, AND TO PROVIDE ALMOST UNLIMITED FINANCIAL ASSISTANCE TO INDUSTRY UNDER SECTIONS 7 AND 8 OF THE PRESENT INDUSTRY ACT. CBI HAVE STATED THAT THE BILL GOES FAR BEYOND THE PROPOSALS LAID OUT IN THE AUGUST 1974 WHITE PAPER AND, AS A FIRST STEP, HAVE REQUESTED MODIFICATIONS PARTICULARLY IN THE DISCLOSURE PROVISIONS IN THE BILL TO BRING IT INTO CONFORMITY WITH THE WHITE PAPER. THEY BELIEVE THEY HAVE THE PRIME MINISTER'S AGREEMENT ON THIS, BUT THE TUC HAS ALSO MET WITH WILSON AND ANNOUNCED THEY HAVE HIS AGREEMENT THAT THE DISCLOSURE MEASURES WILL REMAIN IN THE BILL. (CBI OFFICIALS IN PRIVATE CONVERSATIONS ADMIT THAT THEY ARE TAKING AN EXTREME POSITION IN ORDER TO GAIN ACCEPTANCE OF SOME OF THEIR POINTS. THEY ALSO STATE THAT MOST LARGE FIRMS HAVE A CLOSE RELATIONSHIP TO THE GOVERNMENT NOW AND WILL NOT BE BOTHERED BY MOST PROVISIONS OF THE INDUSTRY BILL. BUT SMALLER FIRMS ARE CONCERNED BY MOST OF THE PROVISIONS.)

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2. EXCEPT FOR THE DISCLOSURE PROVISIONS, OUR IMPRESSION IS THAT THE ACTUAL POWERS OF THE INDUSTRY SECRETARY WILL BE MORE CIRCUMSCRIBED THAN A READING OF THE BILL WOULD INDICATE. AMONG THOSE WHO HAVE VOICED THIS OPINION ARE THE CBI AND A JUNIOR MINISTER AT THE DEPARTMENT OF INDUSTRY. THE NEB HAS A BOARD OF ITS OWN (AND A CHAIRMAN) WHICH WILL, IN PRACTICE, NEED AND WANT LITTLE DIRECTION FROM THE INDUSTRY SECRETARY. MOREOVER, THE NEB OPERATIONS WILL BE

SUBJECT TO CABINET SCRUTINY THROUGH THE CABINET COMMITTEE ON INDUSTRY. THIS COMMITTEE HAS OVERALL CONTROL OF INDUSTRIAL POLICY AND IS CHAIRED BY PRIME MINISTER WILSON.

3. RETURN ON NEB INVESTMENT MUST BE APPROVED BY TREASURY. MANY CONTACTS WITH WHOM WE HAVE DISCUSSED THE INDUSTRY BILL BELIEVE THAT TREASURY'S HOLD ON THE PURSE-STRINGS AND ITS INFLUENCE IN INTERAGENCY INDUSTRIAL POLICYMAKING WILL

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SERVE AS A STRONG MODERATING INFLUENCE ON THE INDUSTRY SECRETARY IN IMPLEMENTING THE BILL'S PROVISIONS.

4. THE DISCLOSURE PROVISIONS ARE MANDATORY. THEY ARE IN THE BILL PARTIALLY TO ENCOURAGE ENTRY BY FIRMS INTO PLANNING AGREEMENTS, BUT THE PLANNING AGREEMENTS THEMSELVES ARE COMPLETELY VOLUNTARY AS PROMISED IN THE WHITE PAPER ON INDUSTRY. THE INDUSTRY SECRETARY WILL PROVIDE A LIST OF FIRMS TO THE HOUSE OF COMMONS FROM WHOM INFOR-

MATION IS DESIRED. EITHER HOUSE CAN DISAPPROVE THE INCLUSION OF ANY FIRM BUT NO VOTE IS NEEDED TO APPROVE THE LIST. INFORMATION WHICH WILL BE REQUIRED INCLUDES: (1) PERSONS EMPLOYED; (2) CAPITAL EXPENDITURE OF THE FIRM; (3) FIXED CAPITAL ASSETS OF THE FIRM; (4) DISPOSAL OR INTENDED DISPOSAL OF SUCH ASSETS, ACQUISITION OR INTENDED ACQUISITION OF FIXED CAPITAL ASSETS; (5) OUTPUT AND PRODUCTIVITY OF THE FIRM; (6) SALES; (7) EXPORTS; AND (8) SALES OF PROPERTY OF THE FIRM. ALL INFORMATION IS ON UK OPERATIONS ONLY.  
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5. FOREIGN FIRMS HAVE LITTLE TO FEAR FROM MOST OF THE INDUSTRY BILL PROVISIONS. THE NEB HAS NO COMPULSORY POWERS; IT MUST TAKE OVER COMPANIES AS ANY OTHER COMPANY WOULD, THROUGH ACQUIRING SHARES IN THE STOCK MARKET. FOREIGN TAKEOVERS CAN BE PREVENTED BY THE GOVERNMENT, AND DOMESTIC FIRMS CAN BE ACQUIRED BY THE GOVERNMENT TO PREVENT FOREIGN TAKEOVER WHERE NECESSARY. BUT THE MAIN THRUST OF THIS PROVISION APPEARS DIRECTED EASTWARD; THERE IS CONCERN HERE AS ELSEWHERE ABOUT WHOLESALE OIL-PRODUCER-COUNTRY TAKEOVER OF DOMESTIC FIRMS. AN INDUSTRY DEPARTMENT JUNIOR MINISTER HAS TOLD US HE WOULD EXPECT THE PROVISION TO BE USED ONLY RARELY. FOREIGN SUBSIDIARIES AND BRANCHES WILL BE SUBJECT TO THE DISCLOSURE PROVISIONS OF THE BILL. SINCE IT IS DIRECTED AT SIGNIFICANT MANUFACTURING INDUSTRY, SOME US-OWNED FIRMS COULD END UP ON THE INDUSTRY SECRETARY'S LIST OF FIRMS WHICH MUST PROVIDE SUCH INFORMATION. IF US FIRMS ARE CONCERNED ABOUT THIS POSSIBILITY WE HAVE NOT HEARD ABOUT IT YET, BUT THIS DOES HAVE SOME POTENTIAL TO AGGRAVATE US-UK RELATIONS IF THOSE US FIRMS INCLUDED WERE TO FEEL STRONGLY NEGATIVE, ASK FOR US GOVERNMENT INTERCESSION OR ULTIMATELY REDUCE OR ABANDON THEIR UK OPERATIONS.

6. COMMENT. THERE IS STILL A LONG HARD FIGHT IN COMMITTEE BEFORE THE INDUSTRY BILL TAKES FINAL SHAPE. HOWEVER, IT IS LIKELY TO EMERGE RELATIVELY UNSCATHED FROM THE CONSERVATIVE/LIBERAL ASSAULT IN COMMITTEE, AS IT IS AN ISSUE ON WHICH BOTH MOST OF THE RIGHT AND ALL OF THE LEFT OF THE LABOR PARTY SEEM TO AGREE. (THE CONCERTED OPPOSITION ATTACK ON THE CAPITAL TRANSFER TAX PROVISIONS OF THE FINANCE BILL WAS TO NO AVAIL; THE BILL WAS APPROVED WITH ONLY MINOR CHANGES. SEE LONDON 3459.)

7. IF PASSED, WE DO NOT BELIEVE THAT THE BILL WILL HERALD DECISIVE OR DRAMATIC CHANGES IN UK INDUSTRIAL ORGANIZATION AND OUTLOOK. ADMITTEDLY, IT IS VIEWED DIFFERENTLY BY DIFFERENT WINGS OF THE LABOR PARTY AS WELL AS BY THE CON-

SERVATIVES, LIBERALS AND INDUSTRY. BUT GIVEN THE LIMITATIONS THAT SEEM TO OBTAIN ON THE INDUSTRY SECRETARY'S POWER TO USE ITS PROVISIONS UNILATERALLY, AS WELL AS THE LIMITED OFFICIAL USE

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RATHER SMALL FUNDING PROVIDED THE NEB, IT DOES NOT SEEM TO US TO PORTEND A RADICAL SHIFT TO FULL-FTEDGED COLLECTIVISM. IN MOST MINDS, IT IS AN ATTEMPT TO REMEDY THE MOST

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OBVIOUS DEFICIENCY IN THE LONG TERM UK ECONOMIC OUTLOOK:  
THE LACK OF ADEQUATE PRODUCTIVE INVESTMENT.

8. HOWEVER, IN REALITY, THE BILL MAY HAVE OPPOSITE RESULTS  
THAN THOSE INTENDED. BUSINESS OBJECTIONS TO IT ARE GREAT-

LY EXACERBATED BY MISTRUST OF THE LABOR GOVERNMENT AND SPECIFICALLY OF THE MOTIVES OF INDUSTRY SECRETARY BENN. MANY SEE THE BILL AS A MEANS BY WHICH BENN CAN BEGIN TO ACHIEVE HIS ACKNOWLEDGED GOALS OF A MUCH HIGHER DEGREE OF COLLECTIVISATION -- GOVERNMENT OWNERSHIP, CONTROL, PARTICIPATION AND WORKER PARTICIPATION -- OF THE ECONOMY. GIVEN THIS, IT PROBABLY WILL BE, AT THE MARGIN AT LEAST, A FURTHER DETERRENT TO INVESTMENT IN THE SHORT RUN. (FORECASTS NOW INDICATE A FALL OF 7-10 PERCENT IN MANUFACTURING INVESTMENT IN 1975, DUE LARGELY TO CORPORATE FINANCIAL PROBLEMS AND THE ECONOMIC DOWNTURN, BUT ALSO IN PART TO FEARS ABOUT THE FUTURE OF PRIVATE ENTERPRISE IN THE UK.) AS A SYMBOL OF THE FEARS OF THE PRIVATE SECTOR OVER GOVERNMENT INTENTIONS TOWARDS IT, THE INDUSTRY BILL LIMITED OFFICIAL USE

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MAY HAVE PARALLEL EFFECTS IN THE LONG RUN, REDUCING INDUSTRIAL CONFIDENCE AND INFLUENCING ITS VIEWS ABOUT THE STABILITY OF GOVERNMENT PROGRAMS FOR INDUCING INVESTMENT, THUS REDUCING THE GROWTH TREND OF INDUSTRIAL INVESTMENT. IT MAY ALSO HAVE DELETERIOUS EFFECTS ON FOREIGN INVESTMENT, BOTH NEW INFLOWS AND EXISTING INVESTMENT. SUCH OVERALL RESULTS ON INVESTMENT WOULD WORSEN ONE OF THE BASIC EXISTING STRUCTURAL DEFICIENCIES OF THE BRITISH ECONOMY, AND IN TURN COULD LEAD TO FURTHER EFFORTS TO SPUR INVESTMENT WITH VEHICLES SIMILAR TO THE INDUSTRY BILL.

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## Message Attributes

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**Disposition Approved on Date:**  
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**Disposition Case Number:** n/a  
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**Secure:** OPEN  
**Status:** NATIVE  
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**TAGS:** EFIN, UK  
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